

Message Text

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C O N F I D E N T I A L ATHENS 7084

E.O. 11652: GDS

TAGS: EFIN, EAID, IBRD, GR

SUBJECT: ECONOMIC ASSISTANCE TO GREECE; CONVERSATION WITH FINANCE
MINISTER DEVLETOGLOU

REF: (A) STATE 113116; (B) ATHENS 3459

SUMMARY: FINANCE MINISTER DEVLETOGLOU EXPRESSED TO
ECONOMIC COUNSELOR GOG'S SATISFACTION AT HIGH-LEVEL MEETINGS
HELD EARLIER THIS MONTH AT STATE, TREASURY AND DEFENSE
DEPARTMENTS. DEVLETOGLOU EMPHASIZED GOG'S GROWING CONCERN
OVER MEDIUM-TERMBALANCE OF PAYMENTS PROSPECTS AND THE
GOVERNMENT'S BELIEF THAT EXTERNAL ASSISTANCE AT FAVORABLE
TERMS WILL BE ESSENTIAL TO PREVENT RESTRAINTS ON GOVERNMENT
SOCIAL AND ECONOMIC PROGRAMS. EMBASSY ANALYSIS CONFIRMS
THAT, DESPITE IMPRESSIVE RECENT EXPORT PERFORMANCE, THE
MAGNITUDE OF CURRENT AND FORESEEABLE TRADE DEFICITS IS A
SOURCE OF CONTINUING VULNERABILITY OVER THE NEXT THREE YEARS,
PENDING NECESSARILY GRADUAL STRUCTURAL CHANGES TO FURTHER
IMPROVE GREEK EXPORT POTENTIAL AND HOPEFULLY REDUCE DEPENDENCE
IN IMPORTED PERTROLEUM.WE ALSO BELEIVE THAT BALANCE OF
PAYMENTS CONSTRAINTS ON ECONOMIC POLICY OVER THIS PERIOD HAVE
THE POTENTIAL TO AFFECT ADVERSELY CARAMANLIS GOVERNMENT'S
CHANCES TO SOLIDIFY STABLE DEMOCRATIC GOVERNMENT IN GREECE.
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DEVLETOGLOU EXPRESSED GOG CONCERN THAT IBRD MAY PHASE

OUTLENDING TO GREECE AT THIS TIME OF PARTICULAR NEED, AND ALSO EMPHASIZED GOG DESIRE FOR TECHNICAL ASSISTANCE AND WORLD BANK RESIDENT REPRESENTATIVE TO ASSIST IN DEVELOPING BANKABLE PROJECTS.

ACTION REQUESTED: THAT USG CONSIDER REEMPHASIZING TO WORLD BANK OFFICIALS OUR FEELING THAT THE RECENTLY EXPANDED LEVEL OF BANK LENDING TO GREECE (ROUGHLY \$110 - \$140 MILLION ESTIMATED IN CY 1975) IS AN APPROPRIATE LEVEL FOR THE NEXT TWO TO THREE YEARS, GIVEN THE PARTICULARLY CRITICAL ECONOMIC/ POLITICAL SITUATION IN GREECE DURING THIS PERIOD. FURTHER, THAT USG SUPPORT GREECE'S REQUEST FOR WORLD BANK TECHNICAL ASSISTANCE, AND EXPLORE POSSIBILITIES FOR A WORLD BANK RESIDENT REPRESENTATIVE HEADQUARTERED IN ATHENS WITH WIDER REGIONAL RESPONSIBILITIES.

1. FINANCE MINISTER DEVLETOGLOU, IN CONVERSATION WITH ECONOMIC COUNSELOR, EXPRESSED SATISFACTION OF GREEK GOVERNMENT WITH DISCUSSIONS HELD IN WASHINGTON WITH TREASURY SECRETARY SIMON, STATE UNDER SECRETARY ROBINSON AND ASSISTANT SECRETARY HARTMAN, AND DEFENSE ASSISTANT SECRETARY ELLSWORTH. DEVLETOGLOU BELEIVES THAT USG UNDERSTANDS AND IS SYMPATHETIC TO GREEK NEEDS.

2. DEVLETOGLOU EMPHASIZED GOG'S CONCERN ABOUT ITS MEDIUM-TERM BLANCE OF PAYMENTS SITUATION. GOG BELEIVES SIZABLE EXTERNAL ASSISTANCE ON FAVORABLE TERMS DURING THE NEXT TWO TO THREE YEARS IS ESSENTIAL DUE TO THE EXTRAORDINARY ECONOMIC PRESSURES IMPOSED BY THE TWIN FACTORS OF PETROLEUM PRICES AND THE NEED TO UPGRADE MILITARY MATERIEL FOLLOWING NEGLECT UNDER THE JUNTA, TOGETHER WITH THE FACT THAT CONTINUED LARGE-SCALE RECOURSE TO COMMERCIAL BANKS AT MARKET INTEREST RATES WILL HAVE INCREASINGLY SERIOUS IMPLICATIONS FOR GREECE'S CREDITWORTHINESS AND ABILITY TO SERVICE FOREIGN DEBT.

3. REFERRING TO HIS DISCUSSIONS AT THE WORLD BANK, DEVLETOGLOU NOTED THAT AN ADDITIONAL \$60 MILLION IN WORLD BANK FINANCING WAS UNDER CONSIDERATIONFOR THE REMAINDER OF FY 1976: \$30 MILLION FOR THE PATRAS-PIRGOS ROAD AND A LIKE AMOUNT FOR SEWAGE TREATMENT PLANTS IN THESSALONIKI AND VOLOS. CONFIDENTIAL

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GOG HAS IMPRESSION THAT, FOLLOWING THE UPSURGE OF LOAN APPROVALS IN CY 1975, WORLD BANK NOW AIMS AT EARLY PHASE-OUT OF LENDING TO GREECE. IF THIS IS TRUE, GOG IS DISAPPOINTED IN LIGHT OF ITS NEEDS OVER NEXT THREE YEARS AND ITS RELATIVELY LIGHT TOTAL BORROWING FROM BANK IN THE PAST. DEVLETOGLOU ACKNOWLEDGED THAT SUBSTANTIAL RESPONSIBILITY LIES WITH GREEK INABILITY TO DEVELOP SUITABLE PROJECTS, AND BECAUSE OF THIS GOG ATTACHES IMPORTANCE TO TECHNICAL ASSISTANCE

WHICH IT HAS REQUESTED FROM WORLD BANK. IN THIS CONNECTION, GOG REPRESENTATIVES TO FUND/BANK ANNUAL MEETINGS (DEVLETOGLOU AND BANK OF GREECE GOVERNOR ZOLOTAS) ALSO RAISED QUESTION OF WORLD BANK CONSIDERING ASSIGNING A RESIDENT REPRESENTATIVE TO ATHENS BUT, ACCORDING TO DEVLETOGLOU, IBRD SENIOR VICE PRESIDENT KNAPP RESPONDED NONCOMMITTALLY.

4. EMBASSY COMMENT: IT IS TRUE THAT GREECE'S SHORT-TERM ECONOMIC SITUATION--THE DANGERS OF WHICH HAD BEEN HIGHLIGHTED EARLY THIS YEAR AT THE TIME OF GOG'S FORMAL REQUEST FOR U.S. ECONOMIC ASSISTANCE--HAS BEEN SAVED BY HEAVY BORROWING FROM COMMERCIAL BANKS (ESTIMATED DRAWINGS OF \$300 MILLION IN 1975). HOWEVER, EMBASSY AGREES WITH GOG THAT MEDIUM-TERM PROSPECTS REMAIN PRECARIOUS AND MERIT SERIOUS ATTENTION BY USG BECAUSE OF OBVIOUS CONNECTION BETWEEN ECONOMIC STABILITY AND SUCCESS OF CARAMANLIS GOVERNMENT. DESPITE IMPRESSIVE EXPORT PERFORMANCE BY GREECE, THE MAGNITUDE OF THE TRADE ACCOUNT DEFICITS IN 1974 AND 1975-- AROUND THREE BILLION DOLLARS EACH YEAR--UNDERScores GREECE'S ESSENTIAL VULNERABILITY TO SWINGS IN TOURIST WHIMS, EMIGRANT REMITTANCES AND SHIPPING EARNINGS, AND TO THE VAGARIES OF INTERNATIONAL CAPITAL MARKETS. THE HIGHER INTEREST RATES GOG HAS HAD TO PAY FOR RECENT COMMERCIAL BANK BORROWINGS ARE SYMPTOMATIC OF THE LATTER ASPECT AND WILL ADD TO FUTURE DEBT SERVICE BURDEN. EMBASSY FURTHER AGREES THAT GREECE'S INTERNATIONAL CREDITWORTHINESS MAY BE STRAINED BY CONTINUED HEAVY BORROWING SIMILAR TO THAT OF THE LAST THREE YEARS. GOG IS WELL AWARE OF THE NEED FOR STRUCTURAL REFORMS IN ITS ECONOMY TO REDUCE THE TRADE DEFICIT AND TO DEVELOP A DOMESTIC ENERGY PROGRAM. THE PROBLEM IS THAT OVER THE MEDIUM-TERM PERIOD OF AROUND THREE YEARS, BALANCE OF PAYMENTS CONSTRAINTS MAY, IN THE ABENCE OF EXTERNAL AID, INHIBIT THE KIND OF EXPANSIONARY ECONOMIC AND SOCIAL PROGRAMS ESSENTIAL FOR THE CARAMANLIS GOVERNMENT TO PROTECT ITSELF ON ITS LEFT

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FLANK, WHERE CRITICS ARE EAGER TO EXPLOIT FOR THEIR OWN POLITICAL ADVANTAGE ANY WEAKENING OF THE ECONOMIC SITUATION.

5. WITH RESPECT TO WORLD BANK, WE WERE UNDER THE IMPRESSION THAT-- SUBJECT TO SUITABLE PROJECTS BEING DEVELOPED--THE BANK WAS NOT AVERSE TO CONTINUING SIGNIFICANT LENDING TO GREECE FOR ANOTHER TWO TO THREE YEARS. SINCE THIS BANK POLICY HAD FULL SUPPORT OF USG AS PART OF OVERALL U.S. POSITION WITH RESPECT TO INTERNATIONAL ASSISTANCE TO PROMOTE THE ENDURING STABILITY OF DEMOCRATIC GOVERNMENT IN GREECE (CF., FOR EXAMPLE, REF. A, PARA. 5, AND REF. B, PARA. 12), PERHAPS THIS ASPECT OF U. S. POLICY COULD BE EXPRESSED MORE EXPLICITLY IN BANK COUNCILS. AS FOR TECHNICAL ASSISTANCE, EMBASSY STRONGLY ENDORSES GREEK REQUEST. WE SUGGEST IN THIS CONNECTION THAT U.S. EXPLORE WITH WORLD BANK THE POSSIBILITY OF A RESIDENT

REPRESENTATIVE HEADQUARTERED IN ATHENS BUT HAVING RESPONSIBILITY FOR SEVERAL COUNTRIES IN THIS REGION (TAKING ADVANTAGE OF ATHENS' EXCELLENT TRANSPORT CONNECTIONS TO NEAR EAST AND BALKANS). SUCH A MOVE--AND EVEN THE KNOWLEDGE THAT THE USG WAS TALKING TO BANK ABOUT THIS IDEA--WOULD HAVE NOT INSIGNIFICANT SYMBOLIC BENEFITS FOR THE STILL-EVOLVING U.S.-GREEK POLITICAL RELATIONSHIP.

6. GRANTED THAT THERE ARE COUNTRIES AROUND THE WORLD IN WORSE ECONOMIC SHAPE, THE FACTS REMAIN THAT (A) GREECE'S ECONOMIC NEEDS ARE REAL AND HAVE POLITICAL IMPLICATIONS FOR THE U.S., (B) THAT THEIR NEED FOR ASSISTANCE IN DEVELOPING PROJECTS IS ALSO REAL (EVEN IF AT FIRST GLANCE SURPRISING), AND (C) THAT DEVELOPMENT ASSISTANCE FUNDS--MULTILATERAL OR BILATERAL--INVESTED IN GREECE WILL YIELD COMPARATIVELY HIGH BENEFITS.
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